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Estimates of Government Funding to the Third Sector: Experimental Statistics

A report by
the National Council for Voluntary Organisations
for the ONS as part of the Invest to Save Bid
titled 'Quality Measurement Framework'

September 2007

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Background

This report has been prepared as part of the 3-year, £2.5 million Invest to Save Budget (ISB) project entitled the 'Quality Measurement Framework' (QMF). The ISB initiative, managed jointly by the Treasury/Cabinet Office, aims to create sustainable improvements in the capacity to deliver public services in a more joined up manner. A key principle of the ISB programme is that investment is provided in return for reform.

The QMF project is being led by the Office for National Statistics (ONS) in partnership with the Department of Health, the National Council for Voluntary Organisations (NCVO), the Personal Social Sciences Research Unit (PSSRU) and the National Institute of Economic and Social Research (NIESR).

The aim of the QMF project is to develop effective but easily usable methodologies and procedures for measuring the value added of specific public services within a framework that could have wider applications. These methodologies and procedures will enable service commissioning authorities to more accurately monitor the performance of providers in the public, private or third sectors in a directly comparable way. This takes forward a strategy published in July 2007 by the UK Centre for the Measurement of Government Activity (part of ONS) on measuring public service output.

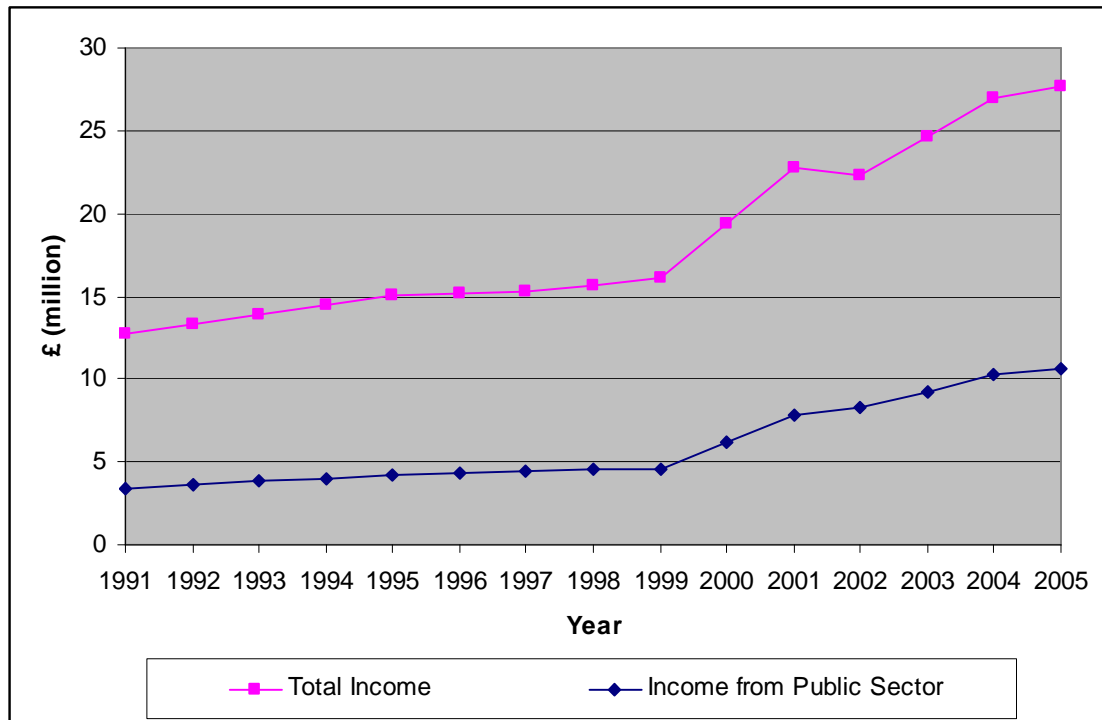
The NCVO's participation is to ensure that the third sector is adequately taken into consideration during the project and to provide overall input from the perspective of the third sector. One objective of the project is to look at the possibility of extending the methodology that will be developed during the lifetime of the project to other parts of public service delivery, with a particular focus on the involvement of third sector organisations. This report from NCVO looks at government funding to third sector organisations to obtain a clearer picture of where the third sector is most involved in public service delivery. This, in turn, will help decide where best to focus the extendibility study.

Introduction

The NCVO's almanac series¹ has tracked income to the third sector since 1995. As shown in figure 1, the income that the sector has received from government sources has risen dramatically since 1999, more than doubling in real terms.

¹ E.g. NCVO (2007) *The UK Voluntary Sector Almanac 2007*
NCVO (2006) *The UK Voluntary Sector Almanac 2006*

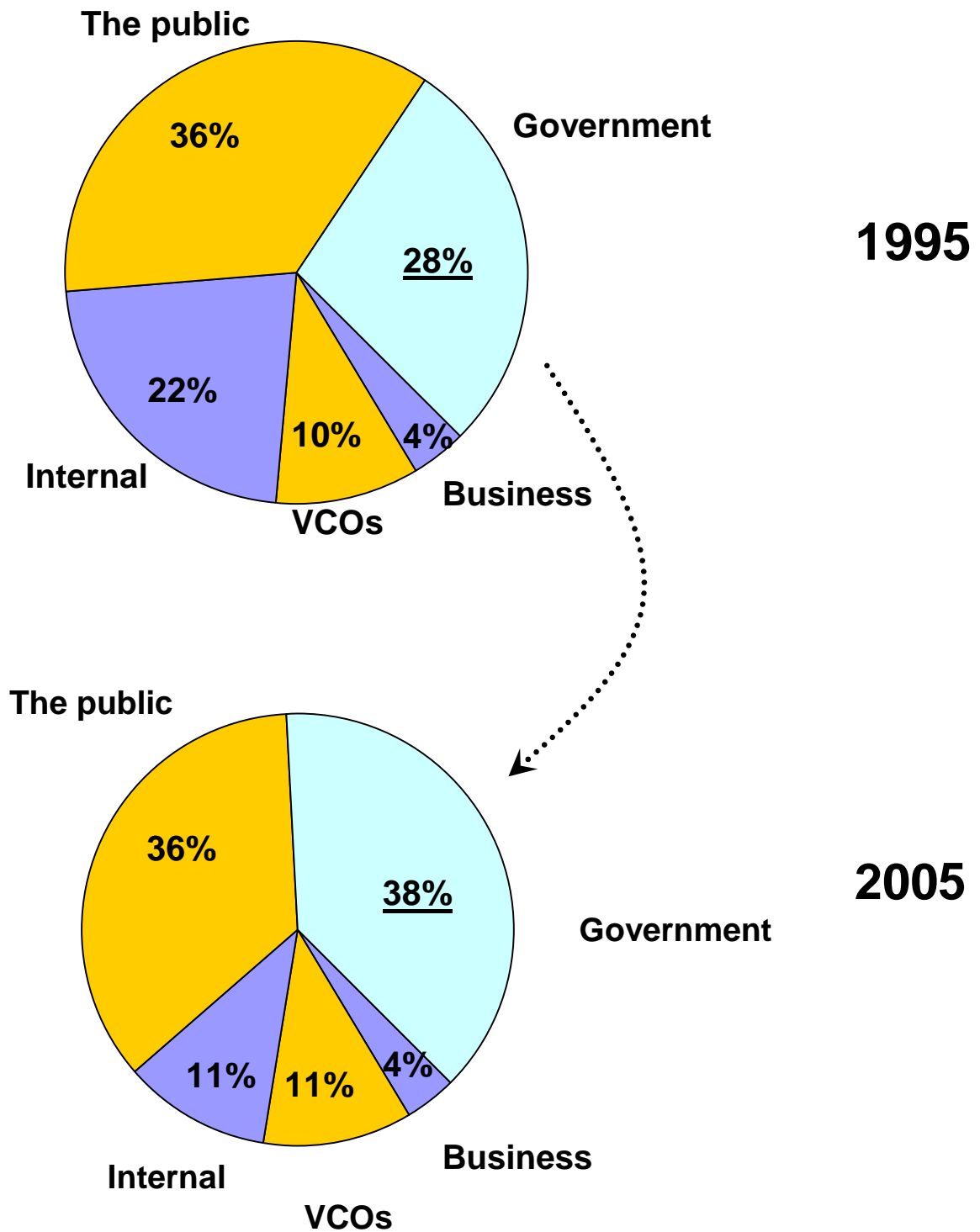
Figure 1: Public Sector Income to the Third Sector (adjusted for inflation)



Source: NCVO and GuideStar UK

It has also risen substantially compared to other sources of income, as shown in figure 2. This has been in line with the government's stated commitment to the sector.

Figure 2: Source of Funding to the Third Sector (%)



Source: NCVO and GuideStar UK

However there have been few studies looking in more depth at which departments are responsible for the funding and which parts of the sector the government is funding. The most comprehensive study was conducted by the Home Office and the Charities Aid Foundation² in 2004. This study only looked at Central Government funding and provides information up to the financial year 2001/02. While the study provides a useful resource, there is a need for a more balanced and up-to-date view. The study also focussed on the supply side, in other words looking at government expenditure figures rather than charity income figures. This study looks at the income that charities report that they receive from government – the demand side - though it will compare the results from the Home Office study to check for consistency.

The Charities Aid Foundation produces an annual report on the top 500 charities entitled 'Charity Trends'.³ This touches on government funding, looking at 'public and other bodies grants'. However it does not specifically look at public sector funding. Furthermore although these are the most significant economic players in the sector, it does not provide a comprehensive picture of income to the whole sector.

This report will be the first time in the UK that a comprehensive study of government funding to the third sector has been undertaken from the point of view of the charities themselves.

Methodology

An outline of the methodology used will be given here, a full methodology can be found in Appendix 1. Our data originates from annual returns that charities submit to the Charity Commission. These annual returns are then put into usable electronic databases by GuideStar UK. Our starting point is the GuideStar database. This report is based on annual returns from the 2004/05 financial year, the latest that we have detailed figures for.

The GuideStar data that we receive is in three parts. The first is a *population database* with general information about every charity, such as its name and address, and the last known income. This database consists of about 160,000 entries. This is cleaned to remove registered charities that don't fulfil our General Charity criteria. The General Charity definition requires charities to fulfil six criteria:

² Home Office (2004) *Central Government Funding of Voluntary and Community Organisations, 1982-83 to 2001-02*.

³ E.g. CAF (2007) *Charity Trends 2007*; CAF (2006) *Charity Trends 2006*

Formality

People and their activities have a structured organisational form. This may take the form of a constitution or a formal set of rules. This excludes large numbers of informal, community-based activities and temporary forms of activity. The economic weight of these activities is minimal.

Independence

Organisations are constitutionally and institutionally separate from the statutory and private sectors. This would exclude organisations that in National Accounts terms belong to 'general government', such as higher education establishments and registered charities that are also non-departmental public bodies (NDPBs) or quasi non-governmental organisations (quangos) such as the British Council. This criterion is responsible for excluding a significant number of large (over £10 million income) registered charities.

Non-profit-distribution

Organisations do not distribute profits to shareholders or owners. Although undertaking activities such as trading to generate a surplus is not excluded, proceeds should not be for the personal benefit of any individuals connected with the organisation and should be directed towards achieving the organisation's charitable objectives. This would therefore exclude co-operatives.

Self-governance

Organisations are truly independent in determining their own course. This would exclude, for example, organisations that are charities within the National Health Service, on the grounds that they are ultimately controlled by a statutory body.

Voluntarism

There is a meaningful degree of voluntarism in terms of money or time. The donation of time includes that given by trustees.

Private benefit versus public benefit

Organisations do not exist solely for the benefit of their own members (such as friendly societies or housing associations), but have a wider public benefit. This may, however, include certain organisations that mainly benefit a specific group of people, or even just their members, when the objectives of the organisation provide a function that would otherwise need to be provided from statutory sources (such as disability associations or community transport). Sacramental religious bodies and political parties are excluded under this criterion. While some consider that their activities are solely for the benefit of their members, others would argue that they have wider public benefit. Once these criteria are applied this leaves about 135,000 general charities. We then look at a second *financial database*. This contains financial information for

about 40,000 General Charities. This database undergoes rigorous cleaning to ensure the data are robust and to remove any errors. For example, a number of ratios are looked at, such as income against expenditure, to search for any outlying charities which are then manually checked to ensure the data are correct. Once the database is cleaned we can then use the 40,000 charities we have records for to extrapolate up to the population as a whole to provide figures on the whole of the general charity sector. To obtain more accurate figures this extrapolation is carried out separately for each income band, and within each income band the source of funding.

The third database is the *long list*. This provides information contained in the notes to the accounts and is called the long list because it is a simple list containing around 220,000 entries with every income and expenditure item given its own line. It is here that information is recorded on the source of charities income and therefore how much comes from government and which government department is the funder. This list is the least complete of the three databases with many gaps being present. Therefore significant resources are required to check the data and manually input information where needed.

Once the long list is satisfactorily cleaned it is then possible to assign income to government departments. The list of government departments is based on MA23, the Office for National Statistics' Government Classification Guide. This guide explains in detail the various sub-departments and to which government department they are ultimately responsible.

Once the long list income is assigned to the correct departments, the data is extrapolated up to the total general charity population. This is done by splitting the sample into five bands (by total income of the charity) and two income categories (earned and voluntary), producing 10 cells. Within each cell a random sample of items previously blank were assigned. It is from this random sample that the remaining items are assigned. This process is explained in more detail in the appendices.

Government Department Nomenclature

The information in this report relates to the financial year 2004/05. Since this time certain government departments have gone through name changes and changed responsibilities for different areas of governments. This shifting of responsibilities makes a simple read across from government department as reported in the 2004/05 accounts to present government departments problematic. For example, if a charity reports income from the Department of Education and Skills, there is no simple way of knowing whether this should be assigned to the present Department for Children, Schools and Families; Department for Innovation, Universities and Skills or another government department. Therefore, to ensure accuracy, in this report we use the names of the government departments as they were in 2004/05.

Results

Overall findings

The amount of money spent by statutory bodies on the Third Sector is shown in Table 1.

Table 1: Funding by statutory bodies to the Third Sector (2004/05)

Funder	Amount (£million)	Percentage (%)
Local Authorities	4,584.9	49.2
Central Government	3,137.6	33.6
National Lottery	529.1	5.7
Devolved Government	368.5	4.0
European	256.5	2.8
Other International	228.3	2.4
Regional Development Agencies including the single regeneration budget	160.5	1.7
Universities	53.5	0.6
Total	9,318.9*	100

Source: NCVO and GuideStar UK

* See box below

As can be seen Central Government accounts for about a third of the total while Local Government accounts for about half. Other sources make up far smaller amounts, including the National Lottery. This may seem surprising given the salience of National Lottery funding but highlights that the National Lottery focuses on higher profile, grant making areas rather than the bulk of expenditure that is carried out as part of day-to-day government.

Given the dominance of central government and local authority spending, this study will focus on these two areas.

Box: Comparison of NCVO's almanac report with this report

The amount of funding to the sector coming from government as reported in the NCVO almanac 2007 is some £1.3 billion different to that reported here. This is due to the ongoing refinement in the methodology of classifying income from charities. There are well known difficulties due to poor reporting of financial data and in particular that coming from government as highlighted, for example, by the National Audit Office. Improving estimates is an ongoing task. However despite these difficulties it is the percentages of income coming from different statutory bodies that is the most important aspect of this report and these will not change whether we use the experimental numbers in this report or the almanac data. We are confident that the numbers reported in the almanac are a fair representation of the state of the sector, though of course our methodology will continue to be improved.

Central Government

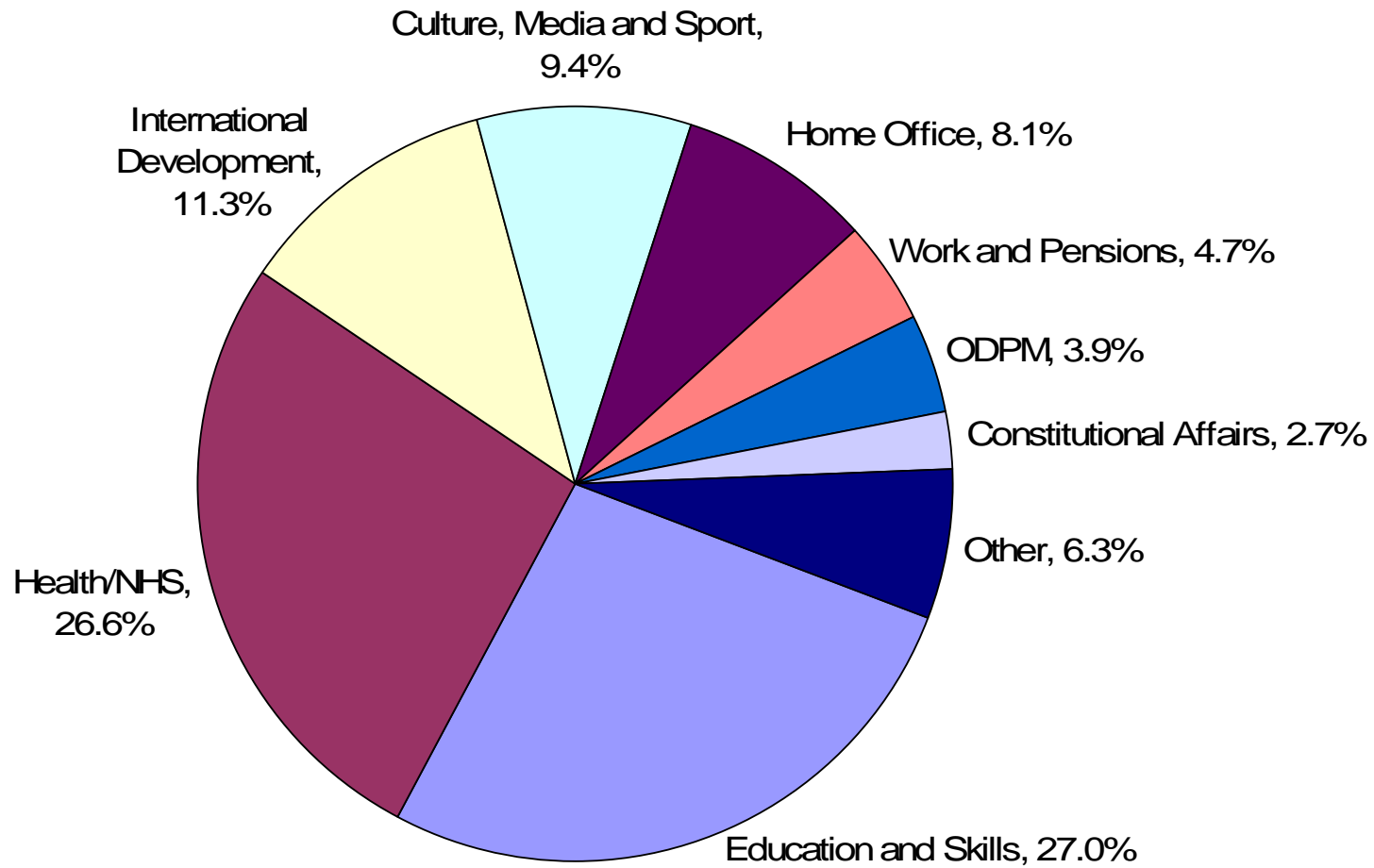
Looking at Central Government first, table 2 shows the amount and figure 3 shows the percentage of income coming from each department.

Table 2: Central Government funding to the Third Sector by amount (2004/05)

Department	Funding to General Charities (£millions)
Education and Skills	848.5
Health/NHS	833.7
International Development	353.0
Culture, Media and Sport	294.6
Home Office	254.6
Work and Pensions	147.9
Office of the Deputy Prime Minister	122.3
Constitutional Affairs	85.5
Trade and Industry	71.2
Ministry of Defence	52.5
Environment and Transport	47.6
Foreign and Commonwealth Office	9.2
Treasury	10.6
Cabinet Office	1.1
Other	5.3
Central Government Total	3137.6

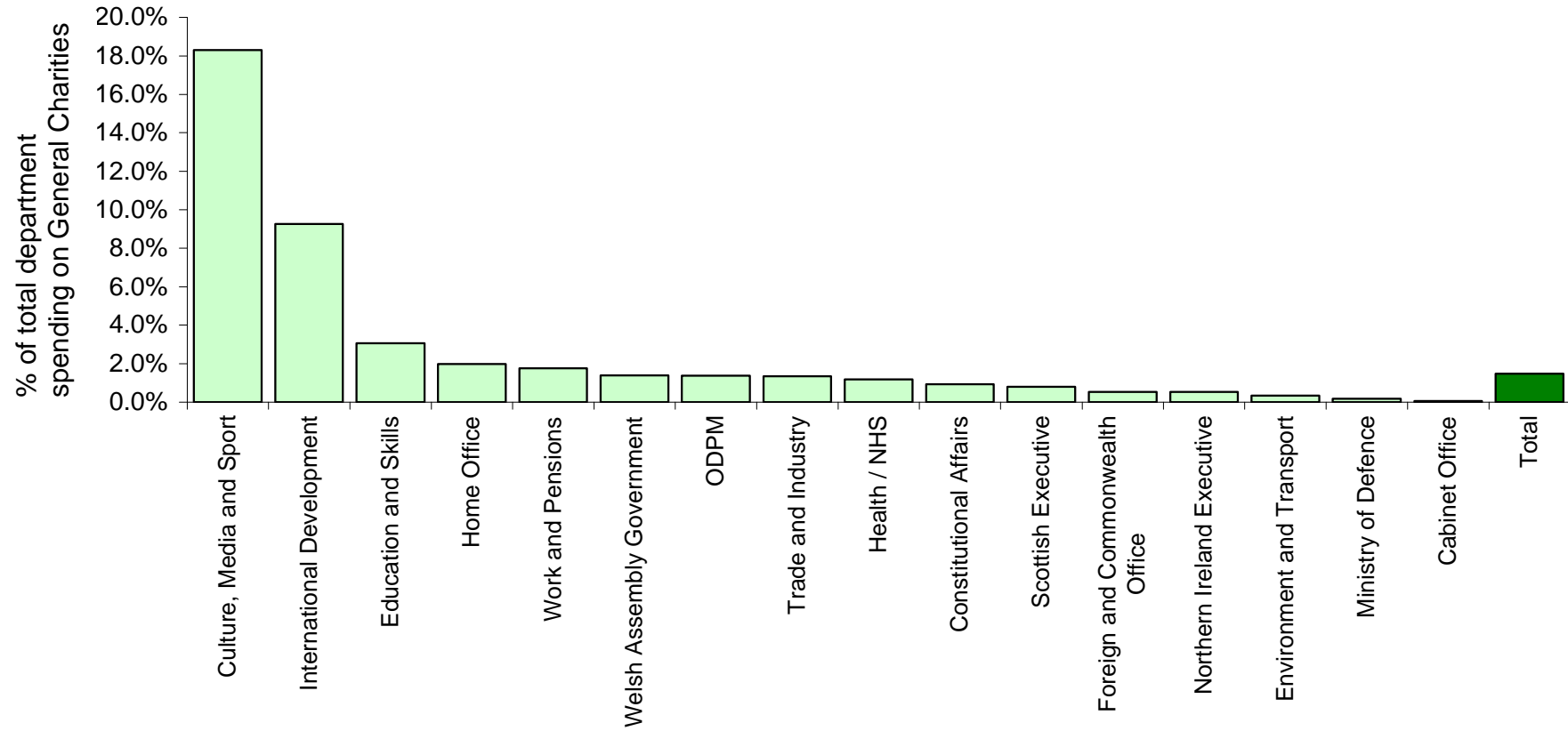
Source: NCVO and GuideStar UK

Figure 3: Central government spending on the Third Sector by percentage
Source: NCVO and GuideStar UK



As figure 3 shows, the Department of Health and the Department for Education and Skills made up over half the total spend by central government while the top five departments, which also included the Department for International Development, Department for Culture, Media and Sports and the Home office, accounted for over 80% of the spend. This concentration of funding has both positive and negative implications. These five departments are the ones most critical to achieve buy-in from for this project to be extended more widely. The positive implication is that if buy-in is achieved in these departments, this would go a long way to ensuring the success of the project. It also allows a concentration of resources to achieve this aim. The downside is that if reluctance is shown in any of these departments, this would exclude implementation for a significant proportion of government funding to the sector. The project should clearly prioritise approaching these departments. However this may be more difficult in some cases than others as while these figures highlight the importance of certain departments to the charitable sector, looking at the importance of the sector to departments shows a different picture (figure 4).

Figure 4: Department Spending on the Sector as a Percentage of total Department Expenditure
 Source: NCVO and GuideStar UK, Public Services Statistical Analyses (HM Treasury 2005)



The Department for Education and Skills, which provided over a quarter of all income from central government to the charitable sector in 2004/05, only spent 3% of its budget on the sector. To the Department of Health, which also provides over a quarter of all income from Central Government, the sector is even less important - it spends only 1.2% of its income on the sector. This would suggest it may be difficult to engage adequately with these departments (or their successor departments) and a clear strategy is needed to ensure success. Given that members of the project board are from the Department of Health, this should help achieve the buy-in desired in this department.

As the government has stated the desire to increase Third Sector involvement in public service delivery, these low figures could be taken as a sign of significant potential for growth. Departments may well be looking at how to increase the sector's involvement and this project may provide a lead as to how they might do so.

The Department for Culture, Media and Sport and the Department for International Development both spend substantial portions of their budget on the sector, highlighting the central role Third Sector bodies play in these areas. Given that these departments already work closely with the sector it may be easier to achieve buy-in in these departments. The difficulty may lie in persuading them of the benefits of changing what is likely to be an established view of how they currently assess their funding to the sector.

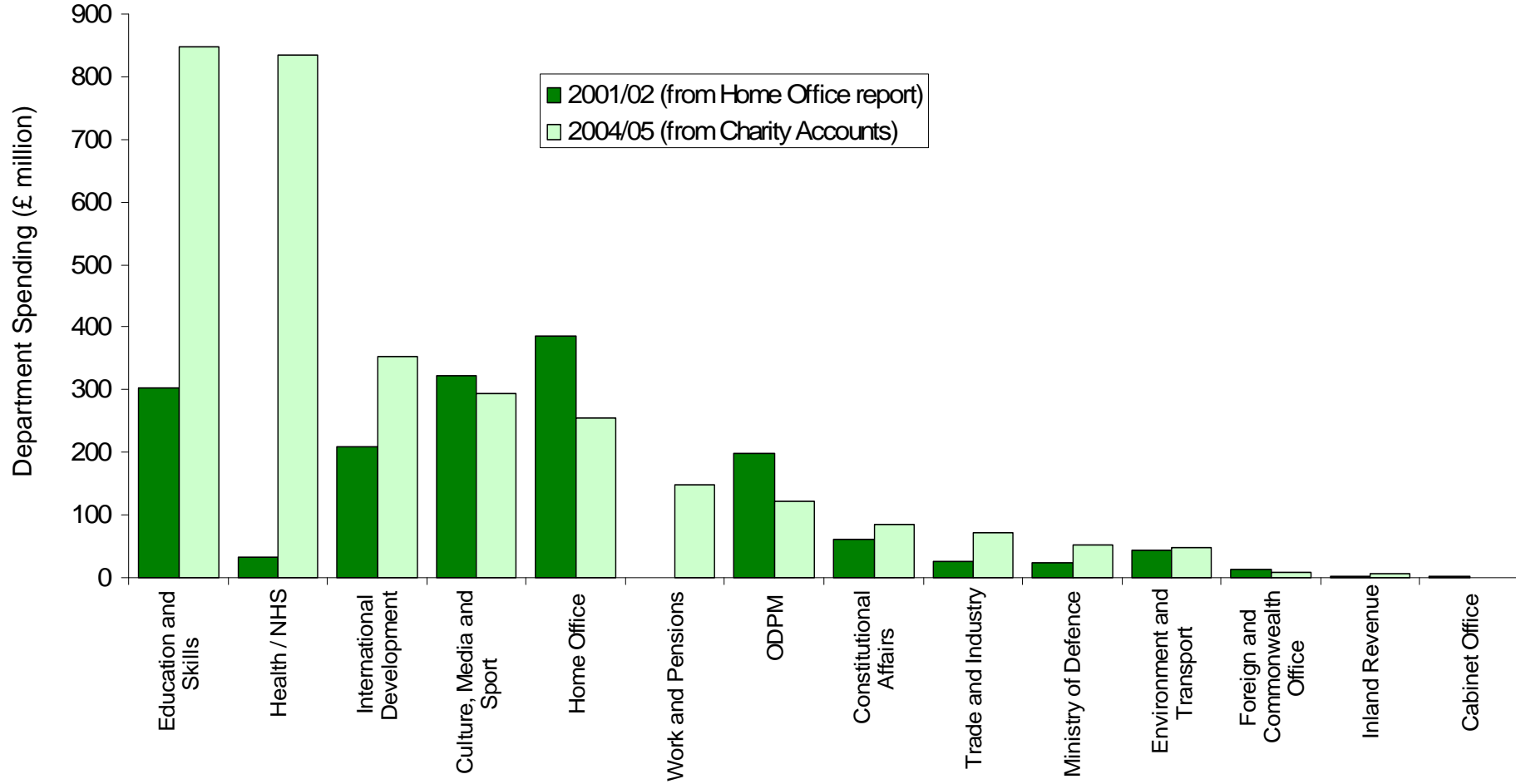
Comparison With Home Office Report

The Home Office's 2004 publication 'Central Government Funding of Voluntary and Community Organisations'⁴ gives figures for spending by departments on the Third Sector. These are the most up-to-date figures available, although the data used is for the financial year 2001/02, compared to the 2004/05 figures used in this study. A more up-to-date report is expected soon and this will provide a better comparison. Given the difference in years and sources, it would be unwise to draw conclusions between the two sets of data. However it still provides a useful check to ensure the figures are broadly comparable, and if not, to examine why this is the case. Figure 5 shows government spending according to the two sets of figures.

⁴ Home Office (2004) *Central Government Funding of Voluntary and Community Organisations, 1982-83 to 2001-02* London: Crown Copyright

Figure 5: Government funding to the Third Sector 2001/02 and 2004/05

Source: NCVO, GuideStar UK and Home Office



n.b. figures for 2001/02 are inflation adjusted to 2004/05

The most obvious thing to note is the difference in spending by the Department for Education and Skills and the Department of Health. Taking the Department for Education and Skills first, if we look at direct spending by the department (Table 3) our data are roughly double that of the Home Office report. However the Home Office report contains two year's worth of figures and show a 50% increase from 2000/01 to 2001/02. If this was to continue the Home Office data would actually show over £700m in 2004/05. Therefore our increase to £410 million is not unrealistic.

Table 3: Department for Education and Skills spending according to the Home Office report and charity accounts data - £ millions (2000/01 – 2004/05)

	Home Office figures 2000/01	Home Office figures 2001/02	Charity Accounts data 2004/05
Direct spending by the Department for Education & Skills	133.6	206.3	410.5
Learning and Skills Councils	Not yet started	67.4	253.5
SureStart/Every Child Matters	Not included	Not included	135.6
Other	47.7	8.8	48.8
Total	181.3	282.5	848.5

Source: NCVO and GuideStar UK

The Learning and Skills Councils only started in 2001, so it would make sense that their budget has risen since then. According to their website (<http://www.lsc.gov.uk/aboutus/>) they currently have a budget of over £10billion and as such it may well be the case that by 2004/05 £254m of that (2.5%) went to the third sector.

Sure Start and Every Child Matters are not included in the Home Office figures (unless they are part of Department for Education and Skills direct funding, which was not mentioned in the Home Office report). Sure Start has been going since 1998, but it is conceivable that either it wasn't thought to be central govt funding (it may be administered on a local level) or that it has increased in terms of resources since 2001/02.

Therefore overall although the rise is dramatic, after a further examination of the figures the discrepancy can be accounted for.

Turning to the Department of Health, the only funding shown in the Home Office report is the direct spending by the department. As far as is possible to tell, the NHS isn't mentioned at all in the report, which accounts for £752m of the spending out of a total of £834m in the charity accounts. Given the implausibility of such a massive increase in funding, it is reasonable to conclude that the NHS funding to the sector wasn't included in the Home Office report and this accounts

for the large difference. Direct funding from the Department of Health was £40m in 2000/01 and £30m in 2001/02 according to the Home Office report, compared to our figure of £81m. The reversal of the dip between 2000/01 and 2001/02 to a rise of £50m in 2004/05 is plausible given the recent government focus on health and their active courting of the Third Sector in this area. Therefore again the difference can be accounted for.

Given the differing sources of the statistics as well as a three year gap between the two sets of data caution should be shown in interpreting these figures and any further conclusions drawn from figure 5 would need further research to ensure they are valid.

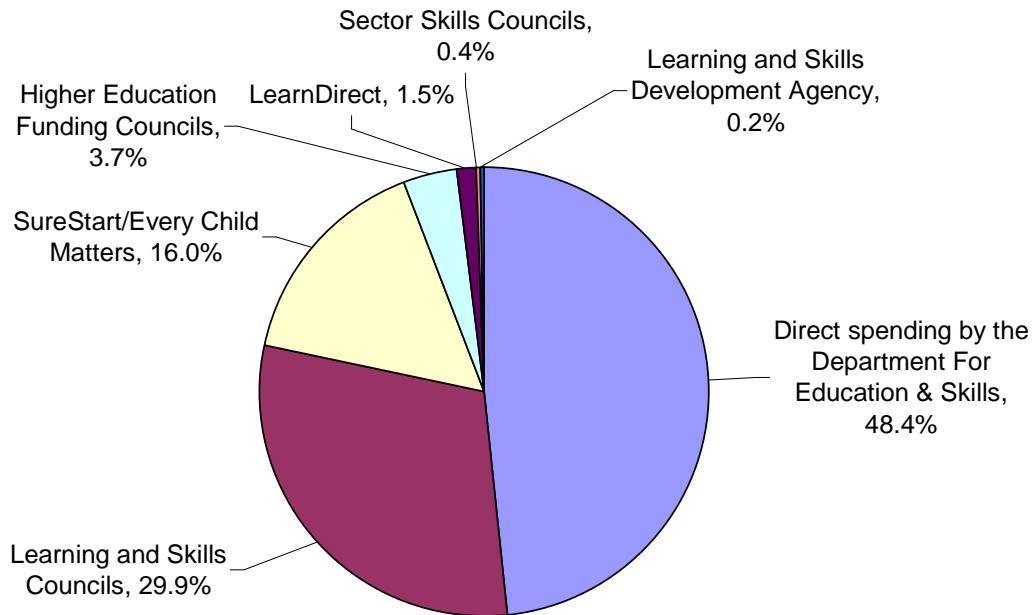
Breakdown of Departments into Sub-Departments

This paper will now look at some of the departments in more detail where it has been possible to separate out the different funding streams within that department.

Department for Education and Skills

The Department for Education and Skills spent about £410 million directly on the sector, which accounted for almost 50% of spending by the department to the third sector (figure 6). The rest of the spending was through various agencies, the largest of which were the Learning and Skills Councils with a total expenditure of £254 million. This means the Learning and Skills Council made up 8.1% of central government's entire spending on the sector. Sure Start / Every Child Matters was also a significant player with an expenditure of £136 million, 4.3% of central government's entire spending, again a significant amount. This suggests two possible areas to focus extendibility studies on that will have major impacts, building on the NIESR work on pre-school children already underway.

Figure 6: Breakdown of spending on the Third Sector by the Department for Education and Skills (2004/05)

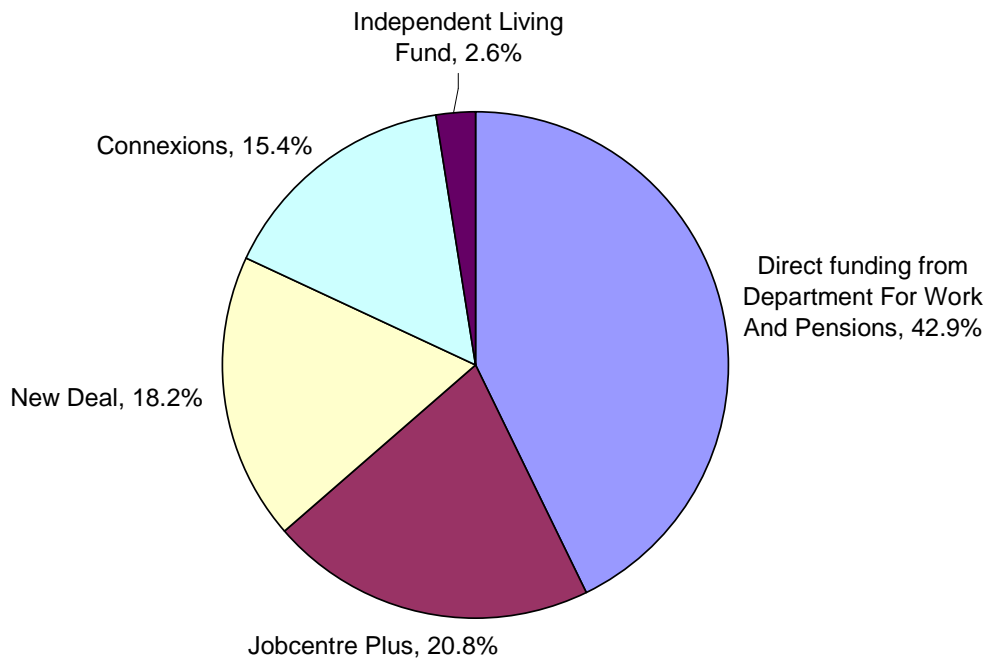


Source: NCVO and GuideStar UK

Department for Work and Pensions

The Department for Work and Pensions spent a total of £148 million on the sector. JobCentre Plus, the New Deal and Connexions made up over the half the department spending, with expenditure of £31 million, £27 million and £23 million pounds respectively. Although the sums of money involved are substantially less than for the Department for Education and Skills, this still represents three significant amounts of spending that can be looked at as possible areas for the extendibility study. They have the advantage of being far more focussed in their aims than the Learning and Skills Councils and SureStart / Every Child Matters which would make it easier to extend the framework into these areas.

Figure 7: Breakdown of spending on the Third Sector by the Department for Work and Pensions (2004/05)

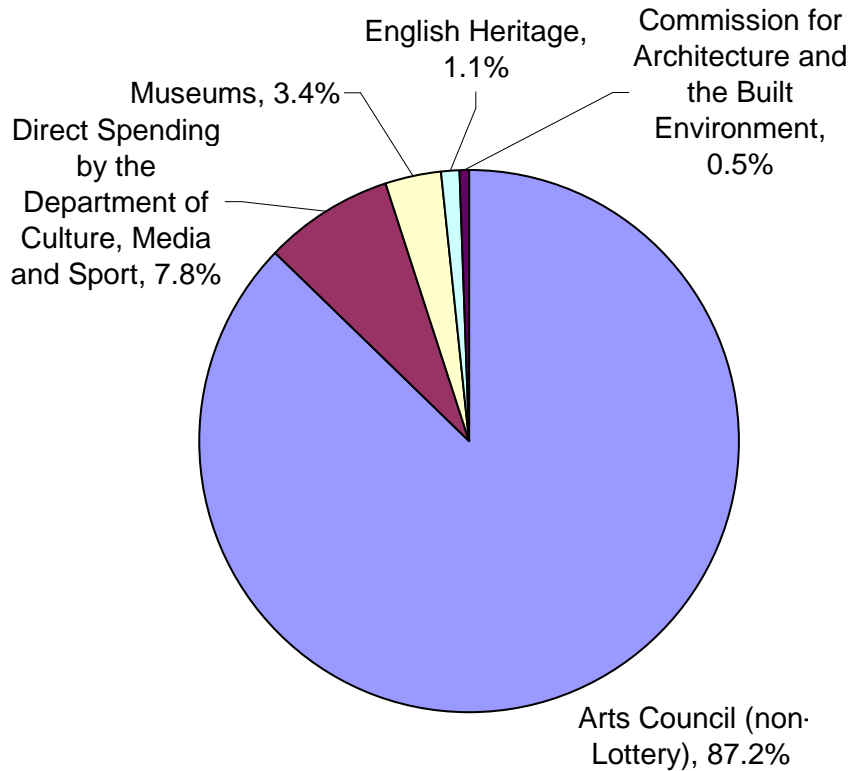


Source: NCVO and GuideStar UK

Department of Culture, Media and Sport

The Department of Culture, Media and Sport spent the vast majority of its money to the sector through the Arts Council, as shown in figure 8, a total of £257 million. Although not normally thought of in relation to service delivery, looking at this section of government spending for the extendibility study may produce a more rounded view of quality measurement. Given the pressures on the Arts by the diversion of money to pay for the Olympics, organisations and indeed the Arts Council itself may welcome the opportunity to demonstrate their value.

Figure 8: Breakdown of spending on the Third Sector by the Department for Culture, Media and Sport (2004/05)



Source: NCVO and GuideStar UK

Other Government Departments

The above breakdowns of certain government departments were given as they had large identifiable organisations through which the departments channelled money to the sector. For the remaining departments most of the spending was directly through the department and therefore no further breakdown was possible. The notable exception is the Department of Health which, as mentioned above, channels the vast majority of its money through the NHS.

Local Authority Funding

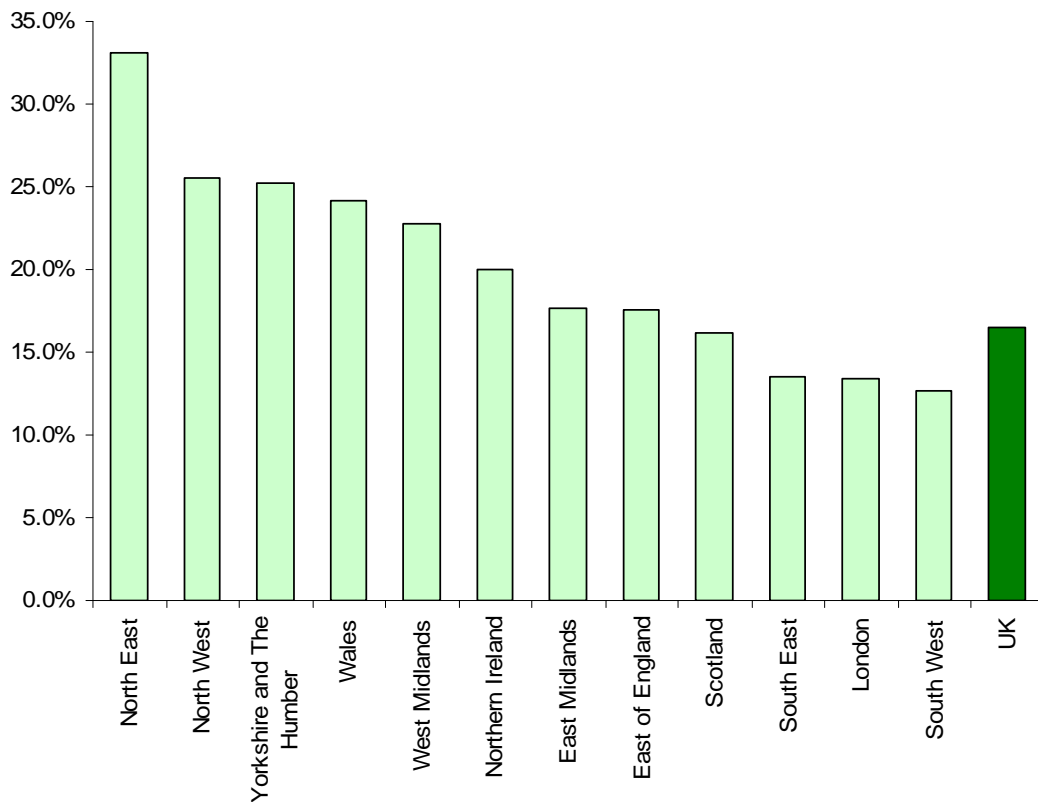
Turning now to local authority funding to the sector, which makes up almost half of the entire spending on the sector by statutory sources, we are faced with a methodological difficulty. This is that almost all charities only report that they receive income from a local authority, but do not specify which local authority. This is not a problem if all charities only receive money from their own local authorities as we would then be able to assign income to where these charities

are based. However it is not known whether this is the case. Another way of looking at this is to ask under what conditions would a local authority fund a charity located in a different local authority area? The main reason for this is that they fund a local branch of a charity whose headquarters are located elsewhere. In the charity accounts income is assigned to headquarters. Where the headquarters are located may not be where the work was carried out and therefore not in the local authority where the money was spent. This would distort the results as it would mean that money that should be assigned to the local authority where the work is carried out will instead be assigned to the local authority where the headquarters resides.

If this significantly distorted the results we would expect London and the South-East to be over-represented as they have a disproportionate number of head offices. However, looking at figure 9, this is not the case. Therefore although the figures may not be completely accurate, it is reasonable to assume that they provide a good enough picture to enable conclusions to be drawn.

It is interesting to note in figure 9 that the size of the charitable sector in each region is unrelated to the proportion of charities' income that comes from local government. For example, the two regions with the greatest proportion of charities per population are Scotland and the South-West. However charities in these regions obtain respectively the fourth lowest and lowest proportions of their income from local government.

Figure 9: The proportion of charities' income in a region that comes from local government (2004/05)



Source: NCVO and GuideStar UK

As figure 9 shows, charities in the North-East receive a substantially greater proportion of their income from local government than anyone else. More starkly, England is neatly split with the northern three regions receiving the greatest proportion of their incomes from local government, the middle three regions receiving the next greatest amounts and the southern three regions (including London) receiving least from local government.

This could be due to a number of reasons⁵:

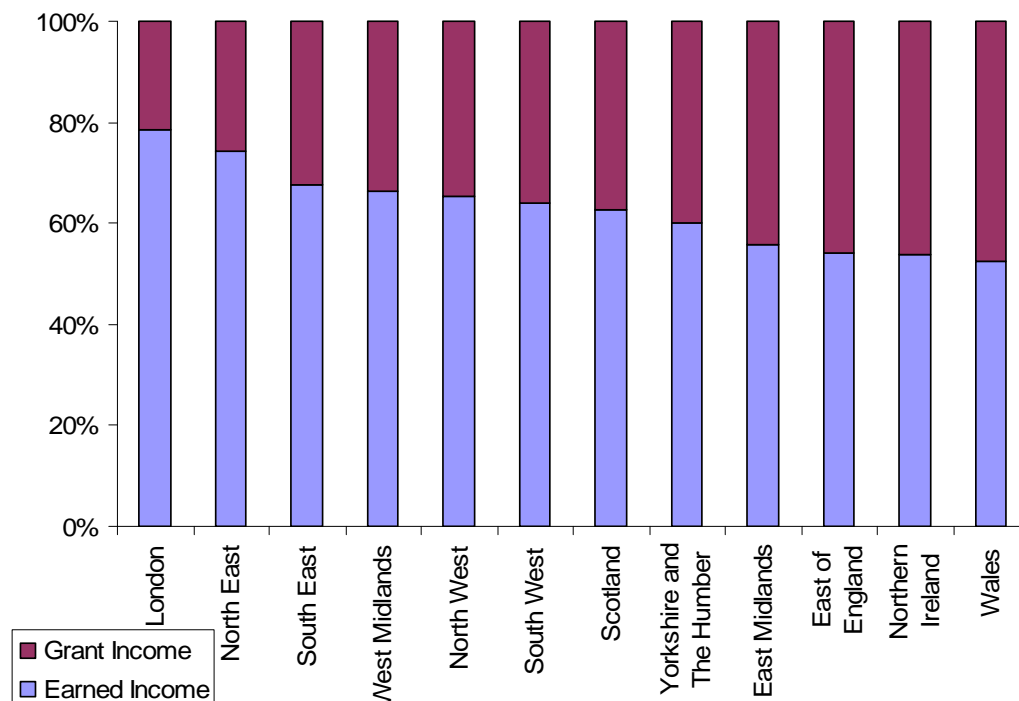
- The local authorities are more supportive of the charities in the region
- The charities in the region are less able to draw in funding from elsewhere, are therefore smaller, and as such receive more of their funding from the local authority
- The local authorities have involved the Third Sector more in public service delivery in the region. This could be due to greater spending overall by local authorities on public services or due to a higher number of third sector bodies being involved.

⁵ Not mentioned are the differing levels of local government control by different political parties. However this difference would not cause a change in funding levels directly, but may contribute to differences in the other reasons given.

The last reason would be of most interest to this project. We can examine it more closely by splitting the income received into earned income and voluntary (grants) income. Earned income from government is generally associated with payment for a service and therefore can approximate for spending on public services. Looking at figure 10, London based charities earn most income from local authorities as expected, given the location of the headquarters of many large service delivery charities. However overall there is no clear comparison and the level of earned income by local charities does not follow the pattern of figure 9 on the total income received. This means that it is unlikely to be increased local authority service expenditure on the sector that is the cause of this difference in income. If the extendibility study were to look for a region to approach first, then the North East would be the most suitable to focus on given that charities earn more of their income from local government than any other region (except London) and they also received more from local government as a proportion of their income than any other region. This highlights a more developed contract relationship between local authorities in this region and the sector than elsewhere.

Figure 10: Comparison of earned income from local authority to Third Sector by region

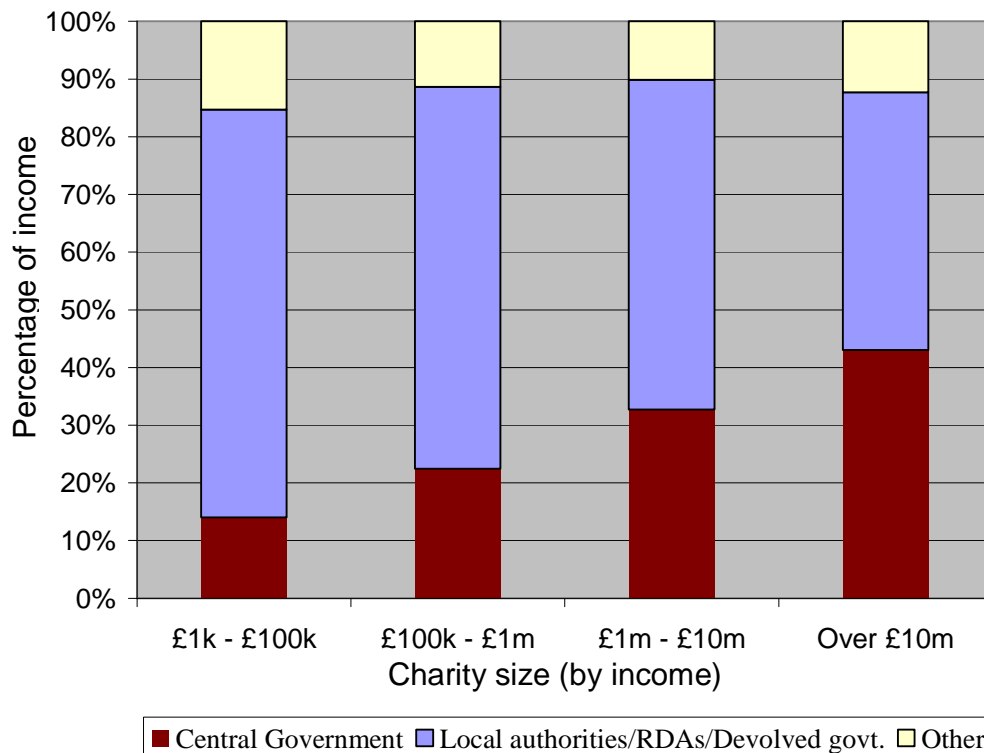
Source: NCVO and GuideStar UK



Income by size of Third Sector Organisation

Another useful analysis is to look at the size of charity that income to Third Sector Organisations from statutory sources goes to. This is given in figure 11.

Figure 11: Source of Income from statutory sources by income band



Source: NCVO and GuideStar UK

As can be seen, smaller organisations rely heavily on local authority funding, although it still accounts for 45% of funding to the largest organisations. Conversely central government funding is slanted the other way towards the larger organisations. Therefore if the extendibility study were to try and focus specifically on smaller organisations involved in public service delivery, it will need to engage strongly with local authorities. There is a danger that if the extendibility study only looks at Central Government funding, there will be a bias towards larger organisations and it will not capture many smaller organisations in its analysis.

Charities with most income from Government

To complement the analysis above the charities that receive the most money from statutory sources were identified, shown in Table 4.

Table 4: Charities with an income from statutory sources of over £30 million (2004/05)

Source: NCVO and GuideStar UK

Name	Income from statutory sources (£million)	Total Income (£million)	Percentage of income from Government
Royal Mencap Society	139.0	157.8	88.1
The Leonard Cheshire Foundation	119.9	135.5	88.5
St Andrew's Healthcare	115.9	139.6	83.0
Barnardo's	107.8	191.6	56.3
WRVS ¹	73.7	81.2	90.7
The British Red Cross Society	68.0	169.0	40.2
Community Integrated Care ²	64.5	64.8	99.6
The Salvation Army Social Work Trust	63.3	83.9	75.4
UFI Charitable Trust ³	62.1	89.2	69.6
Nacro ⁴	59.0	59.0	99.9
The National Autistic Society	55.9	64.3	86.9
Scope	55.2	107.6	51.3
The Save the Children Fund	50.8	133.9	37.9
Oxfam	47.0	253.3	18.6
International Planned Parenthood Federation	46.7	52.3	89.4
Sense, the National Deafblind and Rubella Association	42.1	58.3	72.2
United Response ⁵	40.8	41.6	98.2
United Learning Trust	39.5	41.3	95.7
The Royal National Institute of the Blind	36.0	90.3	39.8
Community Service Volunteers	34.6	43.5	79.5
National Schizophrenia Fellowship	34.1	42.5	80.2
Workers' Educational Association	32.4	33.6	96.6
The Federation of Groundwork Trusts	31.8	38.5	82.7
Care International UK	31.3	35.6	88.0
The National Association of Citizens Advice Bureaux	31.0	36.4	85.2
British Refugee Council	30.2	33.2	91.0

¹WRVS – WRVS provides a range of services to help people in need who might otherwise feel lonely and isolated.

²Community Integrated Care - Community Integrated Care delivers a wide range of specialist care and support services: from supporting adults with learning disabilities and/or mental health concerns, to residential and nursing care for older people.

³UFI charitable trust - UFI is the organisation behind Learndirect - the largest e-learning network of its kind in the world.

⁴Nacro - Nacro is a crime reduction charity working to give ex-offenders, disadvantaged people and deprived communities the help they need to build a better future.

⁵United Response - United Response supports people with learning disabilities or mental health needs to live in the community, across England and in Wales.

Looking at these organisations a number of patterns emerge. The first is that the majority receive a major proportion of their funding from government. This means they are heavily reliant on this funding continuing and will be heavily

affected by, and therefore would like to be involved in, any change in measurement of their work.

The second is that they are almost all involved in public service delivery of some sort or another and most have a long track record of work in this area. Given their size they are likely to have had the capacity to look at the issue of performance measurement and therefore it would be useful to contact these organisations individually to discuss their approaches. They are also likely to carry influence both among policy makers and the sector.

Lastly there are a lot of social care organisations. This would suggest that the Department for Health/NHS and other departments who mainly fund this type of work prefer to work with larger organisations, though more work would be needed to confirm this. This could affect how the project engages with different areas of public service delivery if different approaches are taken depending on the number and size of organisations providing services.

Housing Associations

One major set of entities not mentioned above is Housing Associations. These entities are excluded from the analysis carried out by NCVO as many are not registered charities, which is where our data originates. However given the size of this part of the sector it was felt necessary to examine it. Our figures come from the Home Office report in 2001/02, extrapolated up to 2004/05 figures using the Public Expenditure Statistical Analysis produced by the Treasury⁶. Using this method the total spending on Housing Associations was £1.8 billion in 2004/05. This creates a total spending figure by government on charities of £11.1 billion. It also makes housing associations the government's biggest expense to the sector by a large margin. As table 5 shows, 16.1 percent of this new total figure is made up by housing associations.

Table 5: Expenditure on the Third Sector by Governments including Housing Associations

Category of expenditure	£millions	Percentage
Other expenditure on the sector	9,318	83.9
Housing Associations	1,794	16.1
Total	11,112	100

Source: NCVO and GuideStar UK

As housing association spending is a fairly clear delineated area this would make it suitable for an extendibility study. It also has the potential to have the greatest impact given the size of government spending in this area. However housing benefit is distinctive in the way it is operated by government and therefore there is a question as to the comparability of the way housing benefit is run compared to the rest of public service delivery. This would need to be examined in more detail before any extension was carried out in this area.

⁶ See appendix 1 for the methodology

Conclusion

As stated in the background, the aim of this report is to shed light on where the greatest potential for an extendibility study of quality measurement in public service delivery lies. This is in relation to the greatest concentrations of funding to the Third Sector - the focus of the project for NCVO in conjunction with its partners, as outlined in the introduction.

Overall it is clear that there were major concentrations of resources to the sector coming from certain central government departments in 2004/05, the main ones being the Department for Education and Skills and the Department of Health. This suggests a propitious choice by the project in choosing to focus on adult social care and pre-school education initially, as they are each within one of the departments with the greatest spend on the Third Sector. This suggests that working within the same departments (or their present equivalents) would be a good starting point for the extendibility studies. Indeed, if only these two departments were covered this would account for over 50% of all central government spending. Furthermore the Department for Education and Skills had two large segments of money delivered through the Learning and Skills Council and SureStart / Every Child Matters. While these providers obviously fund a range of services, if these organisations bought in to the project, they would provide a strong platform from which to base wider studies.

Extending the project beyond the confines of these two departments, this study points to the Department for International Development and the Department for Culture, Media and Sport as being the most important. Furthermore as these departments have the two highest percentages of their total spend directed towards the Third Sector, it would suggest that they would be most receptive to this work. However, they both operate in fields that may not be associated with core aspects of public service delivery – overseas development and the Arts and sport. Therefore their inclusion might raise issues as to why the study was prioritising these areas.

When focussing effort to achieve buy-in from Central Government, this study indicates that the present equivalents of the above four departments (where possible to identify), along with the Home Office, are the ones to target first.

Local Authority funding makes up almost half of all funding to the sector and is clearly an area that needs to be taken into consideration. However tracing the source of funds is more problematic than with central government. The study found that the North-East was the most promising place to engage with local authorities in 2004/05, as charities received both the largest funding from local authorities as a proportion of income and the greatest proportion in the form of contracts. This suggests that charities in this area are most engaged in carrying out public service delivery contracts from their local authorities. Therefore there is a broader experience to draw on as well as larger numbers of local authorities that are already engaged with the sector in delivering public services.

Local authorities fund smaller charities to a much greater extent than central government, though they provide substantial income to the larger charities as well. Conversely central government only provided 14% of the income to smaller charities from statutory sources. This indicates that if an extendibility study wishes to engage with smaller third sector organisations, it will have to work closely with local authorities.

Finally there are a number of charities that receive large sums of money from government for public service delivery. Given their importance it would be necessary to engage with these organisations if the extendibility study were to look at areas where they operate. They would also be useful charities to approach in terms of helping in methodological development or as organisations with the capacity to pilot any frameworks developed.

Next Steps

A key limitation of this study is the static nature of the information – there is little idea of the trends in government spending apart from the rough comparison with the Home Office report. However with the next study from NCVO due at the end of September 2008 this process can begin. Furthermore as the study next year will look at income flows to sub-sectors within the Third Sector, this will provide a finer grained analysis of the nature of funding to the sector from statutory sources. This will enable a closer link between government funding and type of activity funded and therefore build a better picture of government spending to the Third Sector as a whole.

Data quality issues continually hamper accurate reporting on charity finances. This is largely the result of poor reporting to the Charity Commission, particularly among the smaller charities. However an on-going programme of methodological improvements, coupled with better knowledge of the shape of the sector, is yielding improvements. Additional work undertaken over the lifetime of the project will enable further progress in this area.

Appendix 1 - Methodology

Methodology for determining Public Sector Income to the Voluntary Sector

Data provided by GuideStar UK

The data used to construct estimates of the amount of voluntary sector income which comes from the public sector in England and Wales is provided by GuideStar UK (Scotland and Northern Ireland will be explained below). This data are provided in three parts:

- 1 A list of all charities on the Charity Commission register, including their income from the previous year. This is used to multiply up sample estimates to populations.
- 2 Detailed variables for 30% of the population. These are taken from the accounts of charities on the register, and include data on income, expenditure, assets and funds.
- 3 A breakdown of individual sources of income, known as the "Long List". This is based on individual items in the accounts of those charities included in (2), and consist of information of the amount and source of each income item. An equivalent also exists for expenditure.

A "general charities" definition is applied to the register of charities. This definition excludes a number of charities based on criteria described in the main report, including religious organisations, independent schools and universities, and some NDPBs registered as charities.

The data are then cleaned using a number of strategies. For example ratios are used such as income:expenditure and assets:expenditure to look for any outliers; round numbers or unlikely zeros are examined and over £10 million organisations are individually looked at. Once the data has gone through this process it is aggregated to produce the estimates shown for the UK. Given the focus of this report on government funding to the sector, the process outlined below specifically looks at how this source of information was dealt with.

Long List income items placed into categories

To find figures for the sources of income that is received by voluntary organisations, the long list is analysed. Each item's source is placed into a

category and these categories are aggregated to produce the final estimates. The categories were produced by GuideStar UK and are roughly based on the MA23 classification, with additions for the business, voluntary and household sectors, and expansion of some items in the government sector. This classification can be found in appendices 2 and 3.

In order to produce more detailed estimates for income received from central government, a further classification was devised. This is based on Government departments, but with the addition of other associated funding streams so, for example, the Pension Service is included as part of the Department for Work and Pensions.

Because of the ever-changing names and structure of government departments, and the fact that charities may well name a funding stream wrongly, or by an old name, the categories were kept vague. This was particularly apparent with the Office of the Deputy Prime Minister, and its predecessors DETR and DTLR. This department had a wide range of responsibilities, and so it would be difficult to classify this income differently.

The classification took the form of a number of database queries based on keyword searches. These keywords were determined from a number of sources, including the MA23 classification. The keywords took into account misspellings, acronyms and alternative/previous titles. The keywords are combined into a data dictionary which can be applied in subsequent analyses.

When the keyword search was complete, the remaining item sources were analysed to find any common words amongst them. These common words were then processed as further keywords. This proved useful in ensuring that the majority of the list was classified.

Long List sampling

Two major problems remained with the long list after this process was complete:

- 1 Reporting of information by charities in their accounts varies, and some of the items (including some of the largest in amount) are too vague for easy classification or reference multiple sources. So, for example, a source might be "Government", or "UK Government and EU".
- 2 Due to time and budget restrictions in the data capture process, a large amount of the items on the long list do not have a source attached to the monetary value. This problem is particularly bad for the smallest organisations and smallest value items. These items are

known as "C" items, as this is the code used by GuideStar to indicate that no description was entered. The table below shows the amount of items with "C" as the source.

	% that are "C"	
	No of Items	Amount (£)
Under £10k	76%	70%
£10k - £100k	74%	71%
£100k - £1m	56%	61%
£1m - £10m	52%	44%
Over £10m	34%	5%
Total	63%	30%

In order to combat these problems, two samples of data were taken. One took the top 10 items in each income band, and classified these manually by looking at the charity accounts. If information could not be found from the accounts, the charity was contacted directly for more information.

The other sample was a stratified random sample of the remaining items, which included "C" items and unclassified non-"C" items. A number of items were randomly selected from organisations in each income band and the source of the item was manually found by looking at the charity's accounts. In all 2,276 items were checked, with the following spread across the income bands:

	Sample	Population	Sample %
Under £10k	210	1,848	11.4%
£10k - £100k	509	51,684	1.0%
£100k - £1m	681	43,210	1.6%
£1m - £10m	543	11,413	4.8%
Over £10m	333	858	38.8%
Total	2,276	109,013	2.1%

Construct estimates of public sector income

Estimates of public sector income are produced by extrapolating from the long list sample to the population. To maximise the accuracy of this extrapolation, the population is split into five income bands and each band is split into earned and voluntary income. The long list items which have been classified are summed for each of these ten categories, and then the sample of unclassified items is applied to each category. This gives a final figure for each classification, across five income bands and two categories of income.

The size of the sample enabled classification to the level of local or central government but did not provide enough data to confidently classify down to the levels below government department. The amounts were therefore redistributed into the smaller categories based on the classifications already done.

Other redistributions were also performed for organisations such as the Arts Council where money is provided by both the National Lottery and by government. By contacting them directly, they revealed that 27% of their expenditure was using lottery money, so this figure was applied to their amount.

The final figures were converted in percentages, which are then applied to the final almanac equivalent figures for England and Wales, in order to multiply up to the total general charity population.

To produce UK-wide figures, including Scotland and Northern Ireland, a comparison was made of the responsibilities of government departments in the devolved administrations. For example, education is devolved to the Scottish Executive, but international development is not. This comparison was used with the data on charity numbers and size provided by the Scottish Council for Voluntary Organisations (SCVO) and Northern Ireland Council for Voluntary Action (NICVA) to extrapolate the levels of government income in Scotland and Northern Ireland, producing final UK figures.

Housing Associations

Housing associations are excluded from the General Charities definition used by NCVO. However, the money paid in the form of housing benefit accounts for a large amount of the money from government to the Third Sector. In order to estimate how much this amount would be, an extrapolation was done from figures in the Home Office report "Central Government Funding of Voluntary and Community Organisations – 1982/83 to 2001/02" (2004).

The figure for Housing Associations from table 11 of the Home Office report were compared with total figures for "other Social housing" from the Public Expenditure Statistical Analysis 2005, table 4.5⁷. This figure gives the total spend of government on social housing (excluding on Local Authority housing).

The percentage of 2001/02 spending on "other social housing" that went to third sector organisations was calculated. By assuming that this percentage would stay

⁷ Source: Public Expenditure Statistical Analysis 2005: http://www.hm-treasury.gov.uk/economic_data_and_tools/finance_spending_statistics/pes_publications/pespub_pesa05.cfm

the same, an estimate for 2004/05 spend was produced. The table below shows the results of this:

£ million	2001/02	2004/05
PESA - "Other Social Housing"	1,490	2,184
Home office report	1,224	1,794
% of PESA	0.82	0.82

Figure used in report

Appendix 2 – Categories of Income and Expenditure

100	Government Sector
110	Central Government
120	Local Government
121	District and Borough Councils
122	County Councils
123	State schools
124	Police
125	Regional Government
131	Town Councils
132	Parish Councils
140	NHS Trusts (PCTs)
150	NHS Health Authorities
160	International Government
161	European Government
162	International Government Agencies
163	Foreign Governments
171	Public Corporations
172	National Lottery Distributors
180	Government initiatives
175	Universities

300	Business sector
310	UK Companies
311	Industrial and Provident / Friendly Societies
312	Credit Unions
313	Community Interest Companies
314	Social Enterprises
320	Overseas companies
321	Scottish Companies
330	Trading Subsidiaries
331	Umbrella Organisations (Businesses)

500	Nonprofit Sector
505	Groups and Societies
510	Charities or Trusts (Registered with CC)
511	Charities or Trust (not registered)
530	Exempt charities
532	Independent schools
533	Voluntary aided schools
540	Housing Associations
550	Excepted charities

551	Religious bodies/Churches
552	Umbrella Organisations (Of Charities)

600	Household Sector/Individuals not identified
610	Events/non-specific Individuals Income
611	Charity Shops
615	Fundraising income
616	Membership Subscriptions

Appendix 3 – Further Breakdown of Central Government

Department	Sub-department
Culture, Media and Sport	Arts Council (non-Lottery)
	Commission for Architecture and the Built Environment
	Department of Culture, Media and Sport
	English Heritage
	Museums
Constitutional Affairs	Department for Constitutional Affairs
	Legal Services Commission
Department of Health	Department of Health
Education and Skills	Department For Education & Skills
	Higher Education Funding Councils
	LearnDirect
	Learning and Skills Councils
	Learning and Skills Development Agency
	Sector Skills Councils
	SureStart/Every Child Matters
Environment	Countryside Agency
	Department for the Environment, Food and Rural Affairs
	Department of Transport
	Environment Agency
	English Nature
	Forestry Commission
	National Park Authority
Home Office	Home Office
	Active Community Unit
	Criminal Justice Board
	Commission for Racial Equality
	HM Prison Service
	Probation Service

Department	Sub-department
	Youth Justice Board
International	Department for International Development
	Foreign and Commonwealth Office
	Ministry of Defence
Office of the Deputy Prime Minister	Coalfields Regeneration Trust
	Housing Corporation
	Office of the Deputy Prime Minister
Trade and Industry	Department of Trade and Industry
	Research Councils
Work and Pensions	Department For Work And Pensions
	Connexions
	Independent Living Fund
	Jobcentre Plus
	New Deal
Other	Other
	Cabinet Office
	Inland Revenue
	Treasury
Devolved	Northern Ireland Government
	Scottish Executive
	Welsh Assembly Government